

## **The Microsoft Special Dividend**

### **How are dividends defined in the U.S. national accounts?**

Dividends are a form of income that shareholders as owners of corporations receive for each share of stock that they hold. These payments -- from a corporation's profits or from its accumulated retained earnings -- are in cash or other assets (excluding the corporation's own stock). The definition of dividends in the *System of National Accounts 1993* -- the international guidelines for national accounting -- is consistent with this definition.

### **Where are the dividend measures shown in the national accounts?**

The national income and product accounts (NIPAs) present several estimates of dividends:

- “Net dividends” is shown in several NIPA tables that present estimates of corporate profits. Net dividends is measured as
  - gross dividends paid by U.S corporations in cash or other assets,
  - plus U.S. receipts of dividends from the rest of the world, net of dividend payments to the rest of the world,
  - less dividends received by U.S. corporations.

This measure of net dividends represents the net dividend income of U.S. residents arising from their ownership, in whole or in part, of U.S. and foreign corporations.

- “Personal dividend income” is shown in NIPA tables that present estimates of personal income and is defined as the dividend income of persons from all sources. It equals net dividends paid by corporations less dividends received by state and local governments. Pension funds, some insurance reserves, and private trust funds are considered to be the property of persons, so dividends received by these institutions are included in personal dividend income. Dividends received by mutual funds are generally redistributed to the mutual fund shareholders, so these dividends can be considered to “pass through” to their owners and are also included in personal dividend income.
- In government current receipts, dividends received by state and local governments are a component of income receipts on assets.
- In foreign transactions and in sources and uses of private enterprise income, dividends are shown in income receipts on assets (dividend receipts from the rest of the world) and in income payments on assets (dividend payments to the rest of the world).

## **How does the Microsoft special dividend impact the national accounts in the fourth quarter?**

On July 20, 2004, the Microsoft Corporation announced that it would pay a special dividend of \$3.00 per share to shareholders of record as of November 17, 2004. The total payout, which was made on December 2, 2004, was about \$32 billion. The dividend payments affects the fourth-quarter estimate of personal income that was released January 28, and will also affect estimates of corporate profits, national income, and government current receipts that will be released March 30. The December estimate of personal income, which will be released January 31, will also be affected. The estimate of gross domestic product (GDP) was *not* affected because the dividend payments do not represent goods and services from *current* production. Similarly, the estimate of gross domestic income, which in theory should be equal to GDP, will *not* be affected.

- Personal income increased by the amount of the dividend payments distributed to persons, which appears as personal dividend income in NIPA table 2.1. It is anticipated that most of the additional individual income tax payments that result from the dividend payout will occur during 2005 (either as payments of estimated taxes due in January, or as final settlements that are due by April 15), so any effects on fourth-quarter personal current taxes were assumed to be small. Therefore, disposable personal income increased by about the same amount as personal income.
- Profits of domestic corporations will not be affected; the increase in net dividends will be offset by a decrease in undistributed corporate profits (NIPA table 1.10). Profits from the rest of the world -- the difference between (1) receipts by U.S. residents of earnings from foreign affiliates plus dividends received by U.S. residents from unaffiliated foreign corporations and (2) payments by U.S. affiliates of earnings to foreign parents plus dividends paid by U.S. corporations to unaffiliated foreign residents -- will decrease by the amount of the dividend payments distributed to nonresidents (NIPA table 6.16D). Consequently, total profits from current production -- the sum of domestic and rest-of-the-world profits -- will decrease by the same amount as profits from the rest of the world.
- National income will decrease by the amount of the dividend payments distributed to nonresidents because national income includes only incomes of U.S. residents -- its profits component includes income earned abroad by U.S. corporations but excludes income earned in the United States by nonresidents (NIPA table 1.12).
- Government current receipts (and government saving) will increase by the amount of the dividend payments distributed to state and local governments (NIPA tables 3.1 and 3.3) plus any additional current tax receipts for the fourth quarter.
- In the foreign transactions accounts, the balance on current account will become more negative by the amount of the dividend payments distributed to foreign shareholders, which will appear as income payments to the rest of the world, less any withholding taxes, which will appear as a reduction in current taxes and transfer payments to the rest of the world (net).

### How large are the impacts of the Microsoft special dividend payments?

- On December 2, 2004, Microsoft paid a special dividend of \$3.00 per share to shareholders of record as of November 17, 2004. The total dividend payout was about \$32 billion. BEA's estimate is that about three-fourths of the total dividend payout (or \$24.9 billion) was paid to persons; this amount has been converted to *an annual rate* (see bullet below) and recorded as personal dividend income for the fourth quarter in the month of December. Within personal income, fourth-quarter personal dividend income was boosted by \$99.4 billion (at an annual rate), and December personal dividend income was boosted by \$298.2 billion (at an annual rate, see bullet below). Additional payouts distributed to U.S. businesses, to state and local governments, and to foreign residents will affect the estimates of corporate profits, national income, and government current receipts that will be released on March 30. Because BEA's estimates of corporate profits and of the balance on current account are partly based on confidential survey data, BEA will not provide estimates of the effects of the special dividend on these components.
- It is important to understand that BEA's quarterly and monthly estimates are presented at annual rates. Therefore, the quarterly estimates of the dividend payout are multiplied by a factor of 4, and the monthly estimates are multiplied by a factor of 12. For example, BEA concluded that \$24.85 billion of the \$32 billion payout went to persons, which boosted fourth-quarter personal income by  $4 \times \$24.85 \text{ billion} = \$99.4 \text{ billion}$ , and boosted December's personal income by  $12 \times \$24.85 \text{ billion} = \$298.2 \text{ billion}$ . (For most series, BEA publishes estimates of levels at annual rates so that periods of different lengths -- for example, months, quarters, and years -- may be easily compared. As a result, one-time events, such as the Microsoft dividend payout can have a large effect on the quarterly and monthly estimates.)